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Adecco Group AG (ADEN.CH)

Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

David J. Hancock
Head-Investor Relations

Thank you. Good morning and welcome to the Adecco Group's First Quarter 2016 Results Conference Call. To present to you today, I'm joined by Alain Dehaze, Group CEO, and Hans Ploos van Amstel, Group CFO. Before we start, please have a look at the disclaimer regarding forward-looking statements in this presentation.

So, let me give you a quick overview of today's agenda. Alain will first present the operational highlights and an overview of the segment performances. Then Hans will review the financials. And finally, Alain will make some comments on the acquisition of Penna and the outlook. We will then open the lines for your questions.

With that, I hand over to you, Alain.

Alain Dehaze
Chief Executive Officer

Thank you, David. Good morning, ladies and gentlemen, and welcome also from my side. I will start with the highlights of the first quarter where my colleagues delivered a good performance for which I thank them. On this and the following slides, I will give all growth rates organically unless otherwise stated.

In Q1 2016, we had revenues of €5.3 billion, an increase of 4%. Gross profit grew by 2%. The gross margin was 19%, down 10 basis points year-on-year or down 40 basis points on an organic basis. Gross margin was negatively impacted by the timing of bank holidays as Easter was in the first quarter 2016, while last year, it fell in the second quarter.

SG&A was up 4% year-on-year. This resulted in EBITA of €228 million. The EBITA margin was 4.3%, down 30 basis points year-on-year. Revenues in March and April combined were up 3% organically and adjusted for trading days.

Let's have a look at the first quarter operating performance in more detail. I will start with the revenue development by region. In Europe, revenues grew by 4% in the quarter. This deceleration from 6% growth in Q4 2015 was driven in particular by moderating growth in Italy, Iberia and Benelux which all faced tougher comparative this quarter.

In North America, growth was 1%, the same as in Q4 2015. Growth was again strong in Medical & Science and Finance & Legal, while Office and Engineering & Technical declined. Growth in the rest of the world including Japan was 10% in Q1 compared to 11% in Q4. Revenues were up 2% in Japan and up double digit in Latin America, Eastern Europe and India.

We look at the next revenue development from a business line perspective. In Q1, revenues in Industrial grew by 6% compared to 9% in the previous quarter. In Office, revenues grew by 5%, up from 4% growth in the previous quarter. In Professional Staffing, revenues were up 2% compared to flat in Q4. Finally, growth remained strong BPO Solutions comprising of VMS, MSP and RPO business.

Let's also have a look at the first quarter revenue development by service line. Temporary staffing is our largest service line. Growth here was 3% this quarter compared to 5% in the previous quarter. Revenues from permanent placement continued to grow at 12% in Q1 compared to 14% growth in the previous quarter. In outplacement, revenues were up 4% this quarter compared to flat in Q4.

Next, I will go through our main markets by geography. You will have noticed that we have made some small changes to our segment reporting for 2016 in order to align with recent changes in the Executive Committee responsibilities. As I'm sure you know, our external reporting must reflect the way we manage the business. That said, we intend to continue to provide relevant color within our segment performances to ensure that you can understand the trends within the business.

Turning first to France, revenue growth was back in line with the market at 7%. Revenue growth continued in construction, remained very strong in automotive, and accelerated in retail and logistics. Permanent placement revenues were up 31% this quarter. The EBITA margin was at 5.7%, down 30 basis points year-on-year. Q1 2016 and Q1 2015 both included a favorable item related to prior year's social charges which, in both quarters, added approximately 60 basis points to the EBITA margin.

In March and April combined, revenues were up 5% adjusted for trading days. This is similar to the Q1 2016 growth rate adjusted for trading days.

We turn next to North America where revenues increased by 1%. Professional Staffing account for approximately half of our revenues and growth here was 4%. Medical & Science was up 29% and Finance & Legal was up 15%. IT grew by 2% and Engineering & Technical declined by 10%. General Staffing represents the remaining half of our North America business. Revenues declined by 2%. The Industrial business was flat while Office declined by 6%.

In Perm, we had good revenue growth of 9%. The EBITA margin was 5.7% in the quarter, up 20 basis points year-on-year. In March and April combined, revenues were down 1%, adjusted for trading days.

In the UK & Ireland, revenues were flat. Professional Staffing account for around two-third of revenues and was down 6% with IT down 5% and Finance & Legal down 6%. Our General Staffing business is mainly exposed to Office which was up 12%. Perm revenues were up 1% in the quarter. The EBITA margin was 2%, down 20 basis points from the same quarter last year, driven by the unfavorable mix development. Revenues for March and April combined were flat, adjusted for trading days.

In Germany, Austria and Switzerland, revenues were down 2%. Revenues in Germany and Austria were flat as a mid-single-digit decline in automotive was offset by growth in sectors such as manufacturing and chemicals. In Switzerland, revenue declined by 8%, negatively impacted by reductions in the export-related and medical sectors.

The Q1 2016 EBITA margin in Germany, Austria and Switzerland was 3.7% compared to a 6.4% margin in Q1 2015. This year-on-year decrease was mainly driven by the timing of Easter. In March and April combined, revenues were down 2% adjusted for trading days.

In Benelux and Nordics, revenues increased by 5%. Benelux was up 10% with growth in all three countries in the region. Revenues in Nordics were down 1%. We saw continuous growth in Sweden and a sequential improvement in Norway. The EBITA margin for Benelux and Nordics was flat year-on-year at 2.2%. Profitability improved in Nordics driven by restructuring measures taken in Norway in 2015. This improvement offset a decline in EBITA margin in Benelux which was negatively impacted by pricing pressure in the Netherlands and by the timing of bank holidays.

Finally, in terms of segment performance, I will touch briefly on some of our other markets. In both Italy and Iberia, growth moderated to 9% against a tougher comparison base. In Lee Hecht Harrison, revenues grew by 1% and our EBITA margin was again a strong 31.5%.

And with this, I hand over to Hans to take you through the financials in more detail.

Hans Ploos van Amstel
Chief Financial Officer

Thank you, Alain. I will start with an overview of the P&L. Alain already mentioned the operating highlights in his introduction with revenue of €5.3 billion and EBITA of €228 million. EBITA decreased by 5% in constant currency. This decline was mainly due to the negative impact of the timing of Easter and bank holidays. I will comment to this in more detail in a moment. Further down the P&L, net income declined by 10%, negatively impacted by a higher tax rate this quarter compared to Q1 2015.

Now, we look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currencies, acquisitions and trading days for each quarter compared to the long-term trend. In this way, we show the sequential growth adjusted for seasonality. For Q1 2016, we were in line with the long-term trend just as we were in Q4 2015. This shows that we are seeing a continuation of the growth trend in Q1.

Next, let's have a look at the year-on-year gross margin evolution. The group's gross margin was 19% in Q1 2016, down 10 basis points. Currencies had a positive effect of 10 basis points, acquisitions added 20 basis points and the organic decrease was 40 basis points.

On an organic basis, temporary staffing had a negative impact of 50 basis points and permanent placements added 10 basis points. The decline in temporary staffing margin was partly due to the timing of bank holidays as Easter was in the first quarter of 2016, while last year, it fell in the second quarter. This, in particular, impacted temporary staffing margins in Germany where temporary employees are on the Adecco Group's payroll. In total, the shift in timing of Easter had a negative impact of approximately 25 basis points on the gross margin.

Now, let me discuss how our cost base developed in the first quarter. SG&A was up 4% organically compared to the prior year. This was driven mainly by a 3% increase in FTEs. We also had some additional cost related to the change in our IT inputs which resulted in higher corporate cost this quarter. Sequentially, our cost base was up 1% in constant currency and excluding one-offs in Q4 2015. This is in line with the normal seasonality and also with the guidance we gave in March.

Turning to the cash flow statements, in Q1 2016, cash flow used in operating activities was €42 million compared to a cash flow generated in operating activities of €54 million in Q1 2015. The difference is mainly due to higher payments of French social charges primarily reflecting the stronger growth development in France and changes in the timing of payments. DSO in Q1 was 52 days, the same as Q1 last year. This quarter, CapEx was €14 million and €135 million was placed in escrow for the acquisition of Penna.

Finally, net debt at the end of March 2016 increased to €1.2 billion compared to €1 billion at the end of December. Our net debt-to-EBITDA ratio was at 1 times at the end of Q1 2016.

And with that, I hand back to Alain.

Alain Dehaze
Chief Executive Officer

Thank you, Hans. With the Q4 results in March, we announced a recommended cash offer for Penna Consulting Plc. This acquisition completed today, in fact, about one hour ago at precisely 09:33 UK time. And we are very excited to welcome our new colleagues and clients from Penna into the Adecco Group. Penna is a human resources service company with three business units, career transition, talent development and recruitment solutions. Penna worked with 70 of the FTSE 100 companies, and the transaction is in line with our acquisition strategy. In this, it will broaden and strengthen our existing operations in Professional Staffing and Solutions. It offers meaningful synergy potential, and it is expected to deliver positive EVA within three years.

The enterprise value of approximately £95 million represent a multiple of approximately 11 times EBITDA for the 12 months ended March 2016. This is before significant cost synergies which will further lower the implied multiple to approximately 8 times.

Let me now comment on the current trading. In Q1 2016, organic revenue growth was 4%, a continuation of the trend of modest growth seen during 2015. As expected, growth continued to improve slightly in France, remained stable in North America, and moderated slightly in Italy, Iberia and Benelux.

In March and April combined, group revenue growth was 3% organically and adjusted for trading days. The group will maintain its price discipline and tight cost control and this will continue in Q2. SG&A excluding one-offs in Q2 2016 is expected to be similar to Q1 2016 on an organic basis.

And with that, I would like to open the lines for your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question is from Mr. Chris Gallagher from JPMorgan. Please go ahead.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Good morning, gentlemen.

Alain Dehaze
Chief Executive Officer

A

Morning, Chris.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Couple of questions. The first, if you could maybe walk through the impact of the increased IT costs in this quarter, and how you see that evolving through the year. And then the second is about the French social security payments, how has the timing of those changed? And given that France is growing more quickly, is that likely to be a drag through the year? And on that point, would you sell a CICE receivable in the next quarter? Thank you.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. Let's start with the IT cost. Thanks for your question. Recall in March, we took the position to change the approach from the in-house developments to our new IT strategy. So, we still have the impact of the higher cost of the old strategy into the quarter. And if you look at the higher IT cost, they are €7 million into the quarter, of which around two-thirds are the cost of the old strategy. And because we changed the strategy, some CapEx became OpEx because of the change of the strategy.

Going forward, you will see lower IT cost. And as we said, we changed the strategy because we want, with our productivity, drive better outcome of the IT. So, we will make sure we're more cost efficient, as well as we get more impact from productivity in the new IT strategy. We're in the process of doing that. So looking in Q2, to give more guidance, because we had €20 million additional cost into the fiscal year, we're ready at the end of Q2 to report how much we reinvest this year in the new strategy and the old. But we are winding down on the old strategy, and we are freeing up quite some savings in the balance of the year.

So, this Q1 is the one-time impact, and it's in line with the SG&A guidance we gave back on March. So if you look at Q1, where we delivered a 4.3% margin, there is 10 basis points of that higher IT cost in there and then the impact of Easter, which adds also 25 basis points. So, those are two impacts we have. So, 4.3% is a good margin, but if you see how we account for [ph] Easter (20:10) and the IT cost, the underlying margin of the business is obviously better than that.

On France, on the cash flow, we have two things. One that you see a €90 million change in cash flow, about half of that is because we're growing the business and it's just a carry-on on the payments of social security. So you have a little bit more cash flow in Q4 where you actually pay some of the social security, and some payments felt in Q1 whereas last year, they're felt in Q4. They, on the fiscal year, won't have a real impact. We are on track to do the cash conversion in line what we communicated in the Investor Day, that 90%. So, the underlying cash flow is healthy. It's just this timing of payments. So, you shouldn't read too much into that.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Okay. Thank you very much.

Alain Dehaze
Chief Executive Officer

A

Thank you, Chris.

Operator: The next question is from Mr. Nicholas de la Grense from Bank of America Merrill Lynch. Please go ahead.

Nicholas de la Grense
Merrill Lynch International

Q

Morning, guys. Two questions, please. One, if you could just help us get a picture of the underlying growth momentum in the business. Can you just confirm what the working day adjusted growth was in Q1? My own guessing is close to the 4% you reported, but that'd be helpful. And then, if you could just confirm what you think the benefit from working days in Q2 will be.

And the second question on French margins, down 30 basis points year-on-year. There was the increase in healthcare cost at the beginning of the year, I think you previously said it was going to be about 30 basis point to 40 basis point negative. You also saw pretty strong growth in permanent recruitment, though, which normally would be positive. Can you comment on kind of what's going on in terms of underlying temp gross margins in France and specifically around any pricing pressure that there might be? Thank you.

Alain Dehaze
Chief Executive Officer

A

Okay. I will take the second question and Hans will then come back on your first question regarding the adjustment. So, regarding France, first of all, we see a recovery – a continuity in the recovery of the French market. That's the first good news. Second, for us, is that we have been able to close the gaps with the markets, yes, with the kind of tough price environment.

Now come specifically to your question regarding the gross margin. I would say that half of the gross margin decrease was due to this health – supplementary or complementary healthcare insurance, and the other half was due to price pressure. We stick everywhere, and including in France, to our pricing discipline. We don't want to lose market share. At some moment, in a very selective way, we have to adapt and to right-price to the market, and that's what happens in France.

Hans Ploos van Amstel
Chief Financial Officer

A

If you look at the working day impact in Q1, it has no impact. We will get a benefit in Q2 and it's rounded between 1% and 2%, and that will come out of Q4. So, if you look on the working days, there's some benefit in Q2 to come.

Nicholas de la Grense
Merrill Lynch International

Q

Does that mean you're saying for the full year, there'll be no working day benefit? Because I thought presumably, because of the 29th of February, there will be some benefit there.

Hans Ploos van Amstel
Chief Financial Officer

A

No. Because of the way also some of the bank holidays fall, there is no impact on working days for the fiscal year.

Nicholas de la Grense
Merrill Lynch International

Q

Okay. Thank you.

Operator: The next question comes from Mr. Toby Reeks from Morgan Stanley. Please go ahead.

Toby W. Reeks
Morgan Stanley & Co. International Plc

Q

Hi there. I've got a couple as well. Just going back on that gross margin question, could you give us an idea of which other markets are also suffering gross margin pressure across the business?

And then secondly, again, I guess going back on the comments about perm in France being up 31%. Is there any dynamic that's changing that would mean you wouldn't be getting such a high gross margin on that business? And then, sorry, finally, you did say that the revenue growth was pretty strong in MSP, VMS and RPO, could you give us the idea of the relative sizes and growth rates of those businesses? Thank you.

Alain Dehaze
Chief Executive Officer

A

I will start with your questions regarding perm in France and then Hans will take your question regarding the gross margin.

Toby W. Reeks
Morgan Stanley & Co. International Plc

Q

Thank you.

Alain Dehaze
Chief Executive Officer

A

So, yes, we are somehow pleased with the development of perm performance in France. Just as a reminder, it was plus 14% in Q4 and it is now plus 31%. Remember, I personally started to launch this dedicated brand for the Professional Staffing, Badenoch & Clark and Spring. And yeah, part of the investment that we have during the last quarters done in [ph] SP (25:48) was also to ramp up this dedicated brands for the Professional Staffing. And, somehow, we are now looking at, yeah, the good results and the favorable development of the perm market in France.

This is something we are also doing in other markets. In Asia, we have also launched the brand Spring in almost all the Asian countries. You see also the performance, for example, in Japan, in perm – in a lot of countries, we are progressing quite well on these strategic priorities. Because let's remember, it's also one of our six strategic priorities.

On the gross margin, Hans?

Hans Ploos van Amstel
Chief Financial Officer — A

Yes. As we discussed in France, we saw price pressure and we keep our price discipline to grow what we call market – trying to learn with market [indiscernible] (26:58). We have seen the same in [indiscernible] (27:03) with some of the countries in Northern Europe, both in Belgium and in Netherlands. And if you look at what we said, we had 50 basis points reduction in the margin of the temporary staffing. About half of that was the impact of Easter and the balance was due to some mix and pricing.

So, we have seen in Northern Europe and France some continued – yeah, to see price pressure. And therefore, what we announced in the Investor Day that we continuously work on productivity, that we drive their productivity program, and that's why we also change the IT strategy because that's a reality, and we need to make sure to keep our leading profitability that we also work with the productivity.

Toby W. Reeks
Morgan Stanley & Co. International Plc — Q

Do you think that that pressure's getting worse because it seem that more countries are being added to the list of where we're seeing pricing pressure coming through.

Hans Ploos van Amstel
Chief Financial Officer — A

This is a question – obviously, I'm new to the business. I have analyzed deeper. It's the continuation. It's not a change. It's just that we will continuously see price pressure like, I think, many businesses are seeing and, therefore, the productivity program is very important. We started that in Q1. We're working on that because we expect that, like most businesses, we will see a continuation of price pressure. But it's not changing.

Toby W. Reeks
Morgan Stanley & Co. International Plc — Q

Okay. Fine. And then on VMS, RPO and MSP?

Hans Ploos van Amstel
Chief Financial Officer — A

We had just over €50 million sales in Q1 in MSP, RPO and VMS combined.

Toby W. Reeks
Morgan Stanley & Co. International Plc — Q

Okay. Thank you.

Hans Ploos van Amstel
Chief Financial Officer — A

You're welcome.

Operator: The next question comes from Mr. Alain Oberhuber from MainFirst.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Good morning, gentlemen. Alain Oberhuber, MainFirst. I have three questions. First is regarding the positive impact we could expect from acquisition on the gross margins. Could you let us know now that we have Penna Consulting being integrated, how much these full year impact would be for the year?

The second question is regarding Italy and Spain. It's a very strong growth rate in the last couple of quarters, in particular Q3 and Q4. Could we expect even a strong deceleration in H2 based on base effect as well as sequential lower organic growth? And the last question is regarding outlook therefore this year on the tax rate.

Alain Dehaze
Chief Executive Officer

A

Okay. Thank you, Alain. I will take your question on Italy and Spain and then Hans will take your question on the outlook and then the impact of our acquisition of Penna Consulting. Regarding Italy and Spain, we have still good growth. You see that. And for sure, like you were mentioning, it's growth on growth. And so, the comp is becoming more tough for both countries.

But the situation going forward somehow in the two countries is different, because Italy, part of the growth we had last year was due to the Jobs Act of Matteo Renzi. And one action that he has taken in the Jobs Act was to give a reduction of social charges for the permanent hiring. It was €8,040 (sic) [€8,060] during three years for any hiring done in 2015. And this has put a lot of [ph] lots (31:12) of activities for this industry [indiscernible] (31:17). This social reduction charges cut has been reduced from the 1st of January 2016 to €3,250. And somehow, you see that the combination of tougher comps and also the reduction of these social charges exemption had also impact on the labor market in general and also on our growth rate in Italy.

Spain, I would say that's difference, you have also growth on growth it was somehow in the same range, 16% Q1 2015 and 10% right now. We see all the segments continuing to grow very well, being auto, double digit; logistics; food; industrial; retail. So that's good, it's tougher comp. But for sure, also, we don't know at this stage what will be the impact of the political uncertainty that the new election will cause. As of today, no material impact in our figures, but for sure, the political uncertainty is growing and growing. And in a way or another will have or could have some impact on the economic development.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. And with that, because of the strengthening of France, we see between – because of that comparison base of Italy and Spain, for the reasons mentioned by Alain, we see still strong growth at a lower level, but that's also [indiscernible] (33:04) is the acceleration in France and, therefore, we see a continuation of growth in the business.

If we look at Penna, we are very pleased with the acquisition. It's a business of around €120 million. If you look on an annualized basis, Penna will add approximately 20 basis points to our gross margin. The Penna business has around 7.6% margin, so it's a good margin in Switzerland. That's before the synergies. So, that will obviously help our profitability going forward.

And last question on the tax rate, there were some mix impact into Q1 from the country mix. If you look at the year, we expect approximately the 28%. So, we don't see that, again, it's just a Q1 thing. It doesn't impact the fiscal year.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Thank you very much.

Alain Dehaze
Chief Executive Officer

A

You're welcome, Alain.

Operator: The next question comes from Mr. Paul Sullivan from Barclays. Please go ahead.

Alain Dehaze
Chief Executive Officer

A

Hello, Paul.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

Hello. Good morning. Just a few from me. Just to wrap up on gross margin, other than pricing pressure and Easter, the movements there, are there any other movements we need to be aware of going into the second quarter? That's the first question.

Secondly, I don't know if you can give us the exit rates – I apologize if I missed them – for Italy and Iberia for March and April. And then, finally, on SG&A, you've given us some guidance on the second quarter, flat sequential. How should we look at sort of your thoughts on SG&A and cost control in this sort of low-single digit slowing growth environment, should we view it as tracking organic revenue growth into the second half and, perhaps, into next year as well?

Alain Dehaze
Chief Executive Officer

A

I can start with your question regarding the exit rate on Iberia. And then, Hans will take the two other questions regarding gross margin and the outlook. Regarding Iberia, I would say we see there also this continuation of level of growth. And March, April adjusted for trading days was 8% for Iberia.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

Great. And sorry, Italy as well?

Alain Dehaze
Chief Executive Officer

A

And Italy was 6%.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

Okay. Thank you.

Hans Ploos van Amstel
Chief Financial Officer

A

If we look at gross margin, we obviously want to make sure that the impact of Easter reverses to the positive in Q2, because that will happen. If you look for the balance between [ph] our debt (35:53), you see no major to have – we saw the pricing, but for the rest, there's nothing material to report. But [ph] Easter (35:01) obviously should revert back in Q2.

If you look at SG&A, what we saw in this quarter is that we had the impact of the pricing, but that the operating leverage continued in line with what we have always done, and we obviously will continue with that operating leverage. And what we're adding to that, given the price pressure, is the productivity initiative that started in Q1 that obviously need some time to work out how we further drive the productivity program. So, we make sure with that, that we continue to focus while the price pressure is there, that the operating leverage stays in the business and to make sure we come through on end the relative growth, which we communicated at the Investor Day, and drive our margin leadership continuously.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

So, would you still think about SG&A growing at a lower rate than revenue growth...

Hans Ploos van Amstel
Chief Financial Officer

A

Yes.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

...even with revenue growth slowing to the low single-digit?

Hans Ploos van Amstel
Chief Financial Officer

A

Yes.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

Yes. Okay.

Hans Ploos van Amstel
Chief Financial Officer

A

Hey, Paul, this quarter was also a little bit impacted by...

Alain Dehaze
Chief Executive Officer

A

The IT.

Hans Ploos van Amstel
Chief Financial Officer A

And that should come off also.

Paul D. Sullivan
Barclays Capital Securities Ltd. Q

Okay. Great. Thank you very much.

Hans Ploos van Amstel
Chief Financial Officer A

Thank you.

Alain Dehaze
Chief Executive Officer A

You're welcome.

Operator: The next question is from Laurent Brunelle from Exane. Please go ahead.

Laurent Brunelle
Exane BNP Paribas Q

Yes. Good morning. A few question if I may. First on France, I think that your growth rate has accelerated through the quarter probably at 7% or 8% in March. So, is it still the case in April? And what kind of growth do you see in the construction segment notably?

Second, a follow-up one on the Easter impact. So, is it fair to say that you will recover 100% of the 25 bps negative impact that you've seen in Q1? And lastly, can you share with us the exit growth rates by country? I know that you gave for Iberia (sic) [Italy] and Spain, but can we get it for every region, please, in March and April? Thanks.

Alain Dehaze
Chief Executive Officer A

Okay. I will start with – I will do the last and the first one on France and the exit growth rate, and Hans will take the Easter impact. And on the first, short answer, Laurent, it's no, we cannot communicate and we won't communicate all the exit growth rates by country.

Now, regarding France, so you have probably also see the figures of the [ph] print (38:38) yesterday.

Laurent Brunelle
Exane BNP Paribas Q

Yes.

Alain Dehaze
Chief Executive Officer A

So, we are performing in line with the markets, slightly above with 7%. And going forward, if we take – but again, it's very difficult because you have this Easter [ph] and so on (38:52), but if you take the March, April combined and adjusted by trading days in France, we had 5%.

Now, specifically, regarding your question by segment. We see a very strong automotive, really, it continues to be high growth. We see also retail strong, also double digits. We see logistic and transport to be similar to Q4 but also double digit. And we see construction – I would say, low double digits, similar as in Q4, but we expect this segment to – let's say, to grow further in the second half of the year as there are quite a lot of construction program in the pipeline being under residential side but also on the infrastructure side.

Hans Ploos van Amstel — A
Chief Financial Officer

If Easter, obviously, should come back one-on-one because the timing of Easter should not impact our results. It's just that it is a reconciling item between Q1 and Q2.

On the exit rate, I think what is important to reiterate to not read too much into this. What we see is that on the growth, we see the continuation of the growth. We see strong growth in France. We see Italy and Iberia on the back of a very strong 2015, have lower growth, that is still good growth, also relative to the peer group. So, we're pleased with the performance in those two markets.

And that if you take France in the mix with that, it is continuing. If you look at the economies which are more mature in their cycle, we see that positive stability, and we see also a continuation of that positive stability in North America, Germany, UK and Japan. Those are more mature economies which have helped our business. So, we see that continuation.

Laurent Brunelle — Q
Exane BNP Paribas

Okay. Thank you very much.

Alain Dehaze — A
Chief Executive Officer

Laurent.

Operator: The next question comes from Mr. Matthew Lloyd from HSBC. Please go ahead.

Matthew Lloyd — Q
HSBC Bank Plc (Broker)

Good morning, gentlemen. Just try and take a slightly different tack on – in terms of your sort of progress in beefing up your SME, your retail, what changes have you made and how fast do you think you can get those businesses firing a little better?

Alain Dehaze — A
Chief Executive Officer

I will take this question. If you – and I will recall some history – when we did the merge of Adia and Adecco (sic) [Ecco] in France, we said we will do not only the merge, but we will put in place the segmentation in place. So, that's why now in France, we have the three channels. We have the small, we have the medium and we have the large. And we are addressing these three markets with three different operating models.

And what we see, quarter-after-quarter, is that we are really, yeah, growing this segment quite positively. If I take the Q1, for example, you see that we had, in France, a growth of small, double digits, 13%; medium, 7%; and the large segment at 6%. So, you'll see that putting the strategy and especially the segmentation at work is delivering its results. And what we are doing, remember also the Investor Day, is we are now deploying and putting into action this segmentation strategy in the various geographies. That's how we are, like you were saying, beefing up the different market segment in an appropriate way.

Matthew Lloyd
HSBC Bank Plc (Broker)
Q

Thank you. One quick slightly different subject, in France, what's the relative wage of construction to the sort of the general business?

Alain Dehaze
Chief Executive Officer
A

In France, construction is the major segment of this industry, and it represents about, for us, it's about 12% of the revenues.

Matthew Lloyd
HSBC Bank Plc (Broker)
Q

But does it – you may not know off the top of your head, but I'm trying to work out, because historically, when construction's been strong, you've seen slightly better wage rate growth in the French market, is that because construction workers earn slightly more than the average temp?

Alain Dehaze
Chief Executive Officer
A

When construction was at the top, it was about, yeah, 17%, 18%, if my memory serve me well, of the market segment, but more details we should probably come back to you.

Matthew Lloyd
HSBC Bank Plc (Broker)
Q

Okay. Thank you very much.

Alain Dehaze
Chief Executive Officer
A

Yeah.

Operator: The next question is from Mr. Hans Pluijgers from Kepler Cheuvreux. Please go ahead.

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)
Q

Yes. Good morning, gentlemen. A few questions from my side. First of all, looking at just your segment across the globe, you saw a deceleration. You already indicated in the press release or on the [indiscernible] (44:44) give maybe some background, some more detail on which other countries, let's say, the development of Industrial in your main market like France, Germany, Japan, how is, let's say, performing there?

Then on the U.S., you saw, let's say, a slightly lower exit rate for the quarter. Is it across the board or are there certain segments which are performing less than what we've seen on average in Q1 ?

And then also coming back on the margin, you already indicated the price and mix impact, but, of course, there's also, let's say, likely some shift changed in delivery models. How do you see that, let's say, development going forward? Do you see that the shift in change in delivery models accelerating? And could you give some feeling how you have seen over the last two years a change in delivery models having an impact on your gross margin, could you give maybe some feeling on that?

Alain Dehaze
Chief Executive Officer

A

Okay. I will take your last point there regarding delivery model, mix and price, and Hans will take the two other question.

So, gross margin and delivery model, so it comes back to our discussion about segmentation. And somehow, what we are developing is adapted delivery model of what we call operating model according to the segment. And you don't manage an on-site business like you do a small customer portfolio.

And somehow – or the objective of our work is to be able to grow in all the segments we are addressing knowing that a company such as big as Adecco has been traditionally very strong in the largest segment and, let's say, less strong in the small and the medium.

So, all objectives – and it is somehow difficult to give a very precise figure by segment [ph] advance (47:03). But our strategy is really to have dedicated target operating model according to the segment and according to the profitability of the segment because we know managing an on-site – big on-site from a branch, it is not the best efficient way.

I think for the price and the mix, Hans has already answered these questions. We see continuous pressure in this market, but that's nothing new. We have studied that for a number of years. And there is and there will be a continuous price pressure in this industry. And that's why we have somehow to have efficiency and productivity programs to cope with that and also invest, innovate in higher profitable segment.

Hans Ploos van Amstel
Chief Financial Officer

A

If we look at the U.S., we see – and I'll give some color to that, that we see General Staffing slightly down. And in Professional Staffing, we saw plus 4% growth which has helped our business. And, actually, as we look versus the market, we're very pleased with the performance in the Professional Staffing. There's also some mix around about there. But overall plus 4% growth is good and especially if you look at our margin structure in the U.S. that that continues to deliver solid results.

What we said before and we continue to see in General Staffing that, particularly in the Office part, we see a slowdown in the hiring. And to get our business back to growth, we need to win new businesses in different sectors of the economy. And we're obviously focused on that, that we gain business because you see among sectors different things.

And that leads me to your question on the sectors. If you look at the economy, we continue to see that low growth environment and at a global basis, we actually see the sectors moving in the right direction. There's one sector which is still down, which is obviously oil and gas and the mining, that's what you see. Now, if you look at sectors like automotive, you see in Germany where we have a relatively large exposure to automotives that automotive is slow. We see in other parts like in France and in the U.S., we see growth in automotives. So, overall, globally, automotive is okay but it's just around the world you see different trends.

So, different sectors are performing at different levels across the countries. If you bring it back to the aggregate, the only sector which is still showing softness is oil and gas, and that's what I actually see that the continuation of growth is pretty much reflected across most sectors globally but with quite some swings and roundabouts at the country level.

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)
Q

Okay. Coming back on the U.S. with respect to the exit rates because there you see some deceleration, but is that across [indiscernible] (50:27) you show compared to Q4 that Professional Staffing was doing slightly better and in the General Staffing was doing slightly less, is that a picture we see also into Q2, so that mix is still continuing to improve or just it's more across the board that we saw a weakening in U.S. at the end of the quarter [indiscernible] (50:48) Q2?

Hans Ploos van Amstel
Chief Financial Officer
A

I wouldn't read too much in the exit rate of the U.S. I think the exit rate is, as we said, for the group level, we see a continuation of growth. We don't see the deceleration.

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)
Q

Okay. Thanks.

Alain Dehaze
Chief Executive Officer
A

You're welcome, Hans.

Operator: The next question is from Mr. Tom Sykes from Deutsche Bank. Your line is open.

Thomas Richard Sykes
Deutsche Bank AG (Broker UK)
Q

Yeah. Morning, everybody. Just on the France profitability again, could you just clarify you comments on the gross margin there? You said that roughly half the gross margin decline I thought was due to healthcare. Are you saying that the healthcare took 30 basis points, 40 basis points off and the temp gross margin was down by 80 basis points, or could you just clarity what you actually were saying there? And then just on – following on from Matt's questions on construction, where is the gross margin on construction compared to when it was a growth market sort of five, six years ago? And is construction now at a lower gross margin than average, and that's a slight negative on mix given there's a lot of large account in construction?

And where there is pricing pressure, could you maybe just pick out the sectors that you'd actually perceive as being a little bit more tougher for price, please.

Alain Dehaze
Chief Executive Officer

A

Yeah. Good. First of all, regarding the complementary health insurance impact, as you know and we have announced that it has kicked in from the 1st of January, and it means that we had two months because in March the salaries were done in April. And that's why we said that this would – this had this impact. Half of the gross margin was coming from this impact. So, there is no I think – it's quite clear. And the other half of the gross margin decrease was due to price pressure, and it leads me to your second question.

It's not that we see a particular, let's say, price pressure in specific segment, absolutely not. What we see is that at very – especially at very large accounts, that's where you have the price pressure. And as said, we have been extremely selective on the accounts where we had to right price in order not to lose market share.

But, again, we are not leading the way. As you can see also from our profitability, we are staying the leader around profitability among the peer group in France, and we want to stick to this pricing discipline. But as said, selectively, sometimes, you have to right-price.

Thomas Richard Sykes
Deutsche Bank AG (Broker UK)

Q

Okay. Thank you. But does that just mean that in the pricing pressure component of the French gross margin decline was around about 30 basis points, 40 basis points? And also, could you maybe just make a comment on your SG&A? It's obviously a while since you've seen some growth this level in France. So, following on to the original question of why you're not getting a little bit more leverage, what's actually happening to your head count in France as well, please?

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. So, I think just to clarify, we're not giving on gross margin any guidance. If you look at the EBITA margin in the quarter which was leading towards this [indiscernible] (54:58) and we had some of the pricing movements built into there. If you look on what we're doing on – and I talk back at the group level because we're not giving guidance [indiscernible] (55:10). We will continue to focus on the operating leverage so that, from our sales growth, our margin growth will follow. What we saw in Q1 is, as we said, is between operating leverage and price pressure. We saw some offset there for the productivity program. But if you look overall, yeah, nothing we haven't seen in the past.

Thomas Richard Sykes
Deutsche Bank AG (Broker UK)

Q

Okay. Okay. I'll leave it there. Thank you.

Alain Dehaze
Chief Executive Officer

A

Thank you, Tom.

Operator: The next question...

Alain Dehaze
Chief Executive Officer

A

Yeah. We should now take the last question, please.

Operator: The last question is from Mrs. Suhasini Varanasi from Goldman Sachs. Please go ahead.

Hilary N. Burke
Goldman Sachs International

Q

Hi. This is Hilary Burke here, Suhasini's colleague from Goldman. Just two questions from my side, please. Your French exit rate was plus 5%, slower than what you saw in Q1 at 7% but – and also slower than the 6.6% market growth we're seeing. Can you explain this? And then the second question is on the IT impact on your numbers. So, how much did you see in Q1? And how much will reverse those post Q1? Thank you.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. I'll start with the IT question. On IT, we saw a €7 million impact in Q1. Recall that is the cost related to the old strategy because we took the decision in Q1. So, there's a onetime impact still of that in-house development. And that was in line with the guidance we gave in SG&A for Q1.

We are at the moment, obviously, and we have made significant progress on freeing up a lot of IT budget. We are in the moment assessing how much we can put at work on the new strategy in 2016. And in Q2, when we will announce we're saving obviously on the old strategy, we're looking what we redeploy in the new. We had given guidance on IT in the past and in Q2, we'll give an update on the IT investments for the year. But we expect, obviously, that we will come in lower.

Hilary N. Burke
Goldman Sachs International

Q

Thank you.

Alain Dehaze
Chief Executive Officer

A

And then, regarding your first question about the exit rates, I would say that when you take the Q1 adjusted for trading days, it was similar to the 5% for the March, April. So, we don't see any slowdown in France. And as I said, especially, when you have this Easter falling in one month and then the other, it's a little bit as hard and as well as science to do this. But as said, we don't see any slowdown in France.

Hilary N. Burke
Goldman Sachs International

Q

Okay. Thank you.

Alain Dehaze
Chief Executive Officer

And with this, I would like to thank all of you for your interest and attention. And David, Hans and myself, we are looking forward to hear you and to talk to you at the latest on August 10 for our Q2 results or even earlier during road show. Have a great day. Bye-bye.